

# Enforcement

We take proactive and resolute enforcement actions to protect investors, punish wrongdoers and safeguard the reputation and integrity of our markets. Our strategic focus on high-impact cases helps us address key risks in financial markets and send strong deterrent messages.

## Our tools

We use the full spectrum of sanctions and remedies available to us under the Securities and Futures Ordinance (SFO), including through criminal, administrative, compensatory and disciplinary actions.

We have broad powers to hold directors and individuals responsible for misconduct committed by the companies they manage.

We can discipline licensed intermediaries through reprimands, fines<sup>1</sup> and suspensions or revocations of licences, and apply to the court for injunctive and remedial orders against wrongdoers in favour of victims.

In dealing with market misconduct, such as insider dealing and market manipulation, we can institute criminal prosecutions or bring cases directly to the Market Misconduct Tribunal (MMT).

During the year, we commenced 204 investigations and laid 29 criminal charges against nine persons and one corporation and secured convictions against seven persons and two corporations.

We obtained disqualification orders against 26 persons. Civil actions seeking financial redress and other remedial orders against 179 persons and corporations in 36 cases are pending before the court.

Disciplinary action was taken against 13 persons and 18 corporations. In addition, we commenced proceedings before the MMT against one corporation and one person for allegedly overstating the corporation's sales revenue in its listing prospectus. We also issued 231 compliance advice letters to address areas of regulatory concern, raise standards of conduct and promote compliance in the industry.

## Our work in figures



<sup>^</sup> The requests were made to intermediaries as a result of our surveillance of untoward price movements and turnover.

<sup>1</sup> Fines paid by intermediaries in disciplinary actions go into the general revenue of the Government.

## Enforcement

### Market misconduct

#### Surveillance

On a daily basis, we monitor trading on the Stock Exchange of Hong Kong Limited and the Hong Kong Futures Exchange Limited and conduct preliminary inquiries to detect possible market manipulation or insider dealing. We also engage with firms to review how they perform their monitoring and surveillance.

Our surveillance of untoward price and turnover movements resulted in 8,748 requests for trading and account records from intermediaries. We also received and assessed 288 notifications from intermediaries<sup>2</sup> regarding suspicious equity and derivative trading.

We posted 12 announcements on our website reminding the investing public to exercise caution

when trading in shares of listed companies where a small number of shareholders hold a high concentration of shares.

#### Ramp and dump scams

In March 2021, we conducted a joint operation with the Hong Kong Police Force against an active and sophisticated syndicate suspected of operating ramp and dump schemes (see sidebar below). Twelve people, including those believed to be the ringleaders of the syndicate and their associates, were arrested during a joint search of 27 premises across Hong Kong by more than 160 officers of the SFC and the Police.

Before the operation, we issued 16 restriction notices and froze about \$860 million in assets in 63 securities accounts belonging to syndicate members which we believe hold proceeds of the schemes.

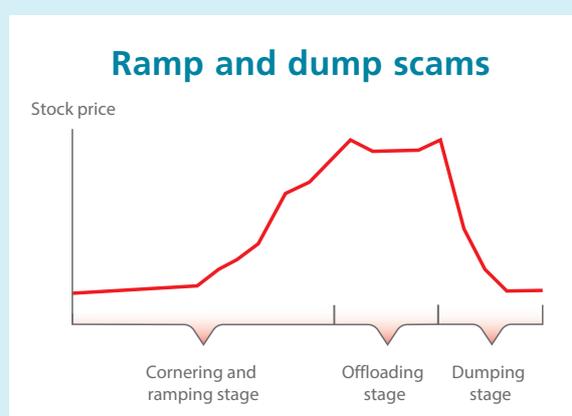
### Cracking down on social media investment scams

A top enforcement priority is to curb “ramp and dump” schemes, a kind of market manipulation. In a typical scheme, the scammers choose a thinly-traded, small-cap stock, often with a small group of shareholders holding most of the shares<sup>a</sup>, and use different means to “ramp” up the share price.

Investors are then approached on popular social media platforms—sometimes by an attractive member of the opposite sex—and urged to heed the advice of an experienced investment “teacher” or follow what appears to be the social media account of a well-known stock commentator. To gain a person’s confidence, the scammer may claim to have inside information and suggest buying a share whose price does rise as predicted.

After enough unwary investors buy the stock, the scammers “dump” their own shares at an artificially high price, causing the price to collapse. The victims will not be able to contact the fraudsters after the crash and most of the time will not know the true identities of the people who lured them into the trap.

<sup>a</sup> With a high shareholding concentration, the share price can fluctuate substantially even with a small number of trades.



An increasing number of retail investors have been lured into these schemes and some suffered significant financial losses. Ramp and dump cases now account for a significant percentage of our market manipulation investigations, which found that members of sophisticated and highly coordinated syndicates may be involved.

Where possible, we take immediate action to freeze securities accounts suspected of being part of these scams. During the year, we froze over \$0.9 billion involving more than 109 accounts.

<sup>2</sup> Intermediaries are required to report clients’ suspected market misconduct to the SFC.



We cooperated with other law enforcement agencies, including the Hong Kong Police Force under a memorandum of understanding, and conducted joint operations as part of our efforts to tackle ramp and dump schemes and related offences such as money laundering and fraud. We worked closely with the Investor and Financial Education Council and the Police's Anti-Deception Coordination Centre to urge investors

to be extremely careful about unsolicited online investment advice. To explain how the scams operate and provide tips for avoiding them, we published a leaflet and a special edition of our *Enforcement Reporter*. We also talked about how to avoid social media ramp and dump schemes in an interview on Radio Television Hong Kong, a video and live talk on Facebook.



Community event



Video explaining a typical scam

## Enforcement



Press conference on joint operation with the Police against suspected ramp and dump schemes

### Insider dealing and market manipulation

The MMT found that the following individuals engaged in insider dealing:

- Li Yik Shuen was banned from dealing in securities in Hong Kong for two years for insider dealing in the shares of Meadville Holdings Limited in 2009. The MMT also ordered her to disgorge her profit of \$546,817.43 and pay the SFC's investigation and legal costs as well as the costs of the MMT proceedings, and issued a cease and desist order for her not to engage in insider dealing in the future.
- Cheng Chak Ngok, former executive director, chief financial officer and company secretary of ENN Energy Holdings Limited, was found to have engaged in insider dealing in the shares of China Gas Holdings Limited in 2011 after a retrial. The sanctions against Cheng will be determined at a later date.
- Charles Yiu Hoi Ying and Marian Wong Nam, two former executives of Asia Telemedia Limited, were banned from dealing in securities in Hong Kong for three years for insider dealing in the company's shares. The MMT also ordered them to disgorge the losses of \$4.2 million they avoided and pay the

SFC's investigation and legal costs as well as the costs of the MMT proceedings. Yiu was disqualified from being a director or being involved in the management of a listed company for three years. The MMT recommended that The Hong Kong Institute of Chartered Secretaries take disciplinary action against Wong.

The Court of First Instance (CFI) upheld the jail sentences against Au-Yeung Siu Pang, former group finance manager of China CBM Group Company Limited, for insider dealing in the company's shares and allowed them to be served concurrently, shortening Au-Yeung's imprisonment from four to three months.

In the Eastern Magistrates' Court, Chow Chiu Chi, company secretary of China Automation Group Limited, was sentenced to 45 days of imprisonment and fined \$45,000 for insider dealing in the company's shares and Ke Wen Hua was fined \$30,000 for false trading in the shares of Carry Wealth Holdings Limited through six securities accounts under his control.

We also initiated criminal proceedings against five individuals<sup>3</sup> for conspiring to carry out false trading in the shares of Ching Lee Holdings Limited in 2016.

<sup>3</sup> Sit Yi Ki, Lam Wing Ki, Tam Cheuk Hang, Simon Suen Man and Ho Ming Hin.

## Corporate fraud and related misbehaviour

We obtained disqualification and other orders under section 214<sup>4</sup> of the SFO in the CFI against the following listed company and senior executives of listed companies:

- Three former directors<sup>5</sup> of EganaGoldpfeil (Holdings) Limited were disqualified for six to nine years for their roles in the company's misapplication of funds.
- Seven former directors<sup>6</sup> of Long Success International (Holdings) Limited were each disqualified for a period of two to five years for breaching their fiduciary and common law duties to act in the interest of the company or to exercise due and reasonable skill, care and diligence in the course of acting as the company's directors. Proceedings against other former directors of the company are ongoing.
- Two former senior executives<sup>7</sup> of Far East Holdings International Limited were disqualified for four and three years for conducting the company's business in a manner involving misconduct and resulting in Far East's shareholders not being given all the information as they might reasonably expect.
- Shandong Molong Petroleum Machinery Company Limited was ordered to reconstitute its audit committee and appoint an independent external auditor to review its internal control and financial reporting procedures. Five former senior executives and two officers<sup>8</sup> of the company were disqualified for seven to nine years for inflating the company's financial position in six results announcements.



We commenced legal proceedings to:

- wind up Combest Holdings Limited, appoint provisional liquidators over the company and disqualify the company's two executive directors<sup>9</sup> and a suspected shadow director<sup>10</sup> to protect the interests of the company's shareholders, creditors and the investing public, on the basis that those individuals allegedly caused the company and one of its subsidiaries to enter into two overpriced acquisitions and that the company allegedly overstated its revenue during various accounting periods between 2016 and 2019.
- seek disqualification and compensation orders against Zhou Ling, former chairman and executive director of New Ray Medicine International Holding Limited, and Dai Haidong, the company's former chief executive officer and executive director, for allegedly committing corporate misconduct and breaching their duties to the company.
- restore all public shareholders of Tianhe Chemicals Group Limited to the positions before their subscriptions or purchases of the company's shares. We also commenced MMT proceedings against the company and its executive director, Wei Xuan, for allegedly overstating its revenue by over RMB6.7 billion in its listing prospectus.

4 Under section 214, the court may make orders to disqualify a person from being a director or being involved, directly or indirectly, in the management of any corporation for up to 15 years.

5 David Wong Wai Kwong, Peter Lee Ka Yue and Chik Ho Yin.

6 Guo Wanda, Hu Dongguang, Victor Ng, Winfield Ng Kwok Chu, Robert Ng Chau Tung, Tse Ching Leung and Zhang Chi.

7 Duncan Chiu, former managing director and chief executive officer, was disqualified for four years and Michael Lui Hung Kwong, former company secretary and financial controller, was disqualified for three years.

8 Zhang Enrong, Zhang Yunsan, Yang Jin, Guo Huanran, Zhao Hongfeng, Ding Zhishui and Yang Junqiu.

9 Liu Tin Lap and Lee Man To.

10 Ng Kwok Fai.

## Enforcement

### Intermediary misconduct

During the year, we disciplined 18 corporations, three responsible officers and 10 licensed representatives, resulting in total fines of above \$2.81 billion. Key disciplinary actions included the following.

#### IPO sponsor failures

During the year, we took enforcement actions against two initial public offering (IPO) sponsor principals for deficiencies in their work:

- Lai Voon Wai, a former responsible officer of CCB International Capital Limited and BOCOM International (Asia) Limited, was banned from re-entering the industry for five years for failing to discharge his supervisory duties as a sponsor principal in two listing applications.
- Fabian Shin Yick, a former responsible officer and chief executive officer of Yi Shun Da Capital Limited, was prohibited from re-entering the industry for 20 months for failing to discharge his duties as a sponsor principal, a responsible officer and a member of the company's senior management in a listing application.

#### AML-related breaches

- We reprimanded and fined Goldman Sachs (Asia) L.L.C. US\$350 million (\$2.71 billion) for serious lapses and deficiencies in its management supervisory, risk, compliance and anti-money laundering (AML) controls in 1Malaysia Development Berhad's bond offerings (see sidebar on page 73 for details).

- We reprimanded and fined Guotai Junan Securities (Hong Kong) Limited \$25.2 million for multiple internal control failures and regulatory breaches concerning AML, third-party fund transfers, placing activities and the detection and reporting of wash trades.
- We reprimanded and fined Southwest Securities (HK) Brokerage Limited \$5 million for breaching AML and counter-terrorist financing (CFT) regulatory requirements.
- We banned Joanna Chu Lai Wa, former responsible officer, director and head of dealing of Guosen Securities (HK) Brokerage Company, Limited, from re-entering the industry for 12 months for failing to discharge her duties which resulted in the firm's AML and CFT regulatory breaches<sup>11</sup>.
- We reprimanded and fined Sino-Rich Securities & Futures Limited \$7.2 million for breaching AML and CFT regulatory requirements when handling cash deposits and third-party fund transfers.
- We reprimanded and fined Yardley Securities Limited \$5 million for breaching AML and CFT regulatory requirements when handling third-party fund transfers.

#### Deficient selling practices

- We reprimanded and fined Mega International Commercial Bank Co., Ltd. \$7 million for internal system and control failures in the sale of collective investment schemes.
- We reprimanded and fined Convoy Asset Management Limited \$6.4 million for internal control failures in soliciting or recommending bonds listed under Chapter 37 of the Listing Rules.

<sup>11</sup> We reprimanded and fined Guosen \$15.2 million in February 2019 for breaches of AML regulatory requirements with respect to third-party fund deposits.

## Record fine for multiple serious rule breaches

In October 2020, we publicly reprimanded and fined Goldman Sachs (Asia) L.L.C.<sup>a</sup> (GSA) US\$350 million, a record for SFC licensees, for multiple failures in its management supervisory, risk, compliance and anti-money laundering controls. These failings contributed to the misappropriation of billions of dollars that 1Malaysia Development Berhad (1MDB)<sup>b</sup> raised in three bond offerings in 2012 and 2013 (see table below).

The 1MDB bond offerings were obtained for Goldman Sachs by Tim Leissner, a responsible officer of GSA, who admitted in August 2018 that he had conspired with others to pay bribes and kickbacks to Malaysian and Abu Dhabi officials<sup>c</sup>.

Numerous red flags raised questions about the commercial rationale for the bond offering. The amount raised, US\$6.5 billion, far exceeded

1MDB's needs. Goldman Sachs did not critically examine or properly address these concerns before allowing the bond offerings to proceed, enabling Leissner and his co-conspirators to escape scrutiny.

Financial intermediaries involved in international transactions should have robust internal controls in place and take all reasonable steps to protect the integrity of their operations and their clients from fraud and other dishonest acts.

The disciplinary action followed a rigorous and independent investigation conducted by the SFC. Assessed solely with reference to the SFC's own fining framework, the record penalty reflects the gravity of GSA's failures.

### 1MDB bond offerings

Closing date	Size	Coupon rate	Maturity	Goldman Sachs' revenue
May 2012	US\$1.75 billion	5.99%	10 years	US\$193 million (11% of principal amount)
Oct 2012	US\$1.75 billion	5.75%	10 years	US\$188 million (10.7% of principal amount)
May 2013	US\$3 billion	4.44%	10 years	US\$186 million (6.2% of principal amount)
<b>Total</b>	<b>US\$6.5 billion</b>			<b>US\$567 million (8.7% of principal amount)</b>



**US\$2.6 billion**  
misappropriated by Leissner and his co-conspirators

**US\$210 million**  
(37% of Goldman Sachs' revenue) allocated to GSA



a GSA is licensed under the SFO to carry on Type 1 (dealing in securities), Type 4 (advising on securities), Type 5 (advising on futures contracts), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities.

b 1MDB is a strategic investment and development company wholly-owned and controlled by the Government of Malaysia.

c In July 2019, the SFC banned Leissner from re-entering the industry for life.

## Enforcement

### Other disciplinary actions

#### Reprimanded and fined for internal control deficiencies

Company	Breaches	Fine	Date
Black Marble Securities Limited	Failed to put in place adequate internal controls and committed breaches of the SFC's Code of Conduct <sup>^</sup>	\$1.8 million	31.3.2021
Fulbright Securities Limited	Failed to detect and prevent short selling and to report short selling incidents to the SFC in a timely manner	\$3.6 million	23.12.2020
Credit Suisse Securities (Hong Kong) Limited	Committed regulatory breaches relating to failures in its electronic trading systems	\$2.1 million	9.11.2020
BOCOM International Securities Limited	Failed to properly handle third-party fund deposits or maintain and implement margin lending and margin call policies	\$19.6 million	20.4.2020

<sup>^</sup> The Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission.

#### Other regulatory breaches

Company/Name	Breaches	Action	Date
GEO Securities Limited	Committed regulatory breaches relating to the sale of unlisted bonds and breached its licensing conditions	Reprimanded and fined \$6.3 million	23.3.2021
Brilliance Asset Management Limited	Failed to ensure short position reports for collective investment schemes under its management were accurate and compliant with the Securities and Futures (Short Position Reporting) Rules	Reprimanded and fined \$3.15 million	22.2.2021
Yung Lap Hong	Misappropriated \$3.6 million from a customer's bank account	Banned from re-entering the industry for life	4.1.2021
China Everbright Securities (HK) Limited	Pledged clients' securities to banks without valid authorisation from the clients	Reprimanded and fined \$2.5 million	29.9.2020
The Bank of East Asia, Limited	Failed to segregate client securities from proprietary securities	Reprimanded and fined \$4.2 million	17.9.2020
Ts'o Jing	Falsely claimed that clients opening securities accounts had to pay an additional sum, pocketed the money and fabricated receipts	Banned from re-entering the industry for life	26.8.2020
Potomac Capital Limited	Failed to comply with the Securities and Futures (Financial Resources) Rules	Reprimanded and fined \$800,000	8.6.2020
HSBC Investment Funds (Hong Kong) Limited and HSBC Global Asset Management (Hong Kong) Limited	Failed to comply with regulatory requirements for cash management for SFC-authorized funds	Reprimanded and fined \$3.5 million	7.4.2020

Note: See Table 6 in Breakdown of SFC activity data on page 164 for details of the less significant disciplinary actions.

## Other notable cases

The Appeal Committee of the Court of Final Appeal (CFA) dismissed the application of Andrew Left of Citron Research for leave to appeal to the CFA against the judgment of the Court of Appeal (CA). In August 2016, the MMT found Left culpable of disclosing false or misleading information inducing transactions<sup>12</sup> in a 2012 report on Evergrande Real Estate Group Limited<sup>13</sup>.

The Eastern Magistrates' Court convicted Lau Tin Yau of providing false and misleading information to the SFC in two licence applications and in his annual licensing return and of failing to notify us of his conviction for a criminal offence and that he was the subject of a related disciplinary action.

The following were convicted by the Eastern Magistrates' Court for unlicensed activities:

Company/Name	Unlicensed activity
Brilliance Capital Management Limited and Law Sai Hung <sup>a</sup>	Holding out as carrying on a business in advising on corporate finance
Simon Chan Ying Ming <sup>b</sup> and Chong Kin Ting <sup>c</sup>	Holding out as carrying on a business in dealing in futures contracts and asset management
Yau Ka Fai	Holding out as carrying on a business in asset management

a Director of Brilliance Capital Management Limited.

b Former officer of Wonderful Wealth Group Limited, which was dissolved in November 2017.

c Former director and shareholder of Wonderful Wealth Group Limited.

We commenced criminal proceedings against Zeng Lingxi for obstructing SFC employees in the execution of a search warrant.

## Disclosure of inside information

The MMT found that CMBC Capital Holdings Limited and its six former directors<sup>14</sup> failed to disclose inside information as soon as reasonably practicable and imposed a 15-month disqualification order and a fine of \$1.2 million against the company's former chief executive officer and company secretary Philip Suen Yick Lun. The company's former chairman, Paul Suen Cho Hung, was fined \$900,000. The MMT also ordered the six former directors to attend an SFC-approved training programme on the corporate disclosure regime, directors' duties and corporate governance.

The MMT fined Magic Holdings International Limited and five of its directors<sup>15</sup> a total of \$6.5 million for the late disclosure of L'Oréal S.A.'s proposed acquisition of the company in 2013. The company failed to take all reasonable measures to monitor the confidentiality of the proposed acquisition and the disclosure was delayed for around three months. The five directors were also disqualified for eight to 24 months.

## Restriction notices

During the year, we issued restriction notices to 38 brokers prohibiting them from dealing with or processing assets held in client accounts. These assets are related to suspected market manipulation in the shares of eight listed companies, some of which involved social media ramp and dump scams, and suspected corporate misconduct concerning another listed company. One of the brokers, Agg. Asset Management Limited, was prohibited from carrying on regulated activities for which it is licensed.

## Use of technology

Through our organisation-wide Market Intelligence Programme, we use the latest technologies to identify risks in our markets, including potential misconduct by interconnected parties. Data collected from our operations and public sources is analysed to isolate patterns and connections among individuals, companies and transactions which may indicate conduct risks.

<sup>12</sup> Market misconduct within the meaning of section 277 of the SFO.

<sup>13</sup> Left's appeal to the CA was dismissed in February 2019 and his application for leave to further appeal to the CFA was dismissed in July 2020.

<sup>14</sup> Philip Suen Yick Lun, Paul Suen Cho Hung, Lau King Hang, Huang Zhencheng, Weng Yixiang and Wong Kwok Tai.

<sup>15</sup> Stephen Tang Siu Kun, She Yu Yuan, Luo Yao Wen, Cheng Wing Hong and Sun Yan.

## Enforcement

### Enforcement cooperation with the CSRC

During the year, we maintained close enforcement cooperation with the China Securities Regulatory Commission (CSRC) despite disruptions caused by travel restrictions amid the COVID-19 pandemic.

Timely communication and coordination allowed us and the CSRC to fine-tune our enforcement cooperation mechanisms to overcome unforeseeable challenges and enable cooperation to proceed in an orderly manner. Investigatory requests for high-priority cases received prompt attention and assistance. In addition, the CSRC used innovative technologies to gather evidence for our investigations.

We exchanged views with the CSRC on the prevention of money laundering, the use of technology in enforcement work and the impact of the representative action mechanism to protect the collective interests of investors in securities disputes as set out under the Mainland's new Securities Law.

In December 2020, we held the tenth high-level meeting on cross-boundary enforcement cooperation with the CSRC together with a four-party meeting with the Enforcement Bureau of the CSRC, the Commercial Crime Bureau (CCB) of the Hong Kong Police Force and the Securities Crime Investigation Department (SCID) of the Mainland Ministry of Public Security to discuss collaboration in combating cross-boundary securities crime. The four authorities exchanged views on cooperation mechanisms and their respective legal environments.

### Tenth Mainland and Hong Kong high-level meeting on enforcement cooperation and four-party meeting



CSRC Enforcement Bureau



SCID of Ministry of Public Security



SFC Enforcement Division



CCB of Hong Kong Police

2 December 2020

## Enforcement activities

	2020/21	2019/20	2018/19
S179 <sup>a</sup> inquiries commenced	42	31	26
S181 <sup>b</sup> inquiries commenced (number of letters sent)	246 (8,748)	231 (8,767)	294 (9,074)
S182 <sup>c</sup> directions issued	189	187	231
Investigations started	204	197	238
Investigations completed	196	182	243
Individuals/corporations charged in criminal proceedings	10	7	5
Criminal charges laid <sup>d</sup>	29	10	42
Notices of Proposed Disciplinary Action <sup>e</sup> issued	27	35	22
Notices of Decisions <sup>f</sup> issued	35	46	34
Individuals/corporations subject to ongoing civil proceedings	179	158	101
Compliance advice letters issued	231	218	234
Cases with search warrants executed	28	17	30

a Section 179 of the SFO gives the SFC the power to compel the production of records and documents from persons related to a listed company in relation to fraud or other misconduct.

b Section 181 of the SFO gives the SFC the power to require information from intermediaries about trading transactions, including the identity information of the ultimate clients, the particulars and instructions relating to the transactions.

c Section 182 of the SFO gives the SFC the power to investigate SFO offences, market misconduct, fraud, misfeasance and disciplinary misconduct.

d The SFC brought a total of 29 criminal charges against nine individuals and one corporation.

e A notice issued by the SFC to regulated persons that it proposes to exercise its disciplinary powers, on grounds that they appear to be guilty of misconduct or not fit and proper.

f A notice that sets out the SFC's decision and its reasons to take disciplinary action against regulated persons.

Note: Also see Table 7 in Breakdown of SFC activity data on page 165 for more details.